

# South Hams Audit Committee



<b>Title:</b>	<b>Agenda</b>
<b>Date:</b>	<b>Thursday, 1st July, 2021</b>
<b>Time:</b>	<b>10.00 am</b>
<b>Venue:</b>	<b>Repton Room - Follaton House</b>
<b>Full Members:</b>	<p style="text-align: center;"><b>Chairman</b> Cllr Austen <b>Vice Chairman</b> Cllr Spencer</p> <p><i>Members:</i> Cllr Brazil Cllr Rowe Cllr McKay Cllr Taylor Cllr Pennington</p>
<b>Interests – Declaration and Restriction on Participation:</b>	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
<b>Committee administrator:</b>	Democratic.Services@swdevon.gov.uk

- |   |                |
|---|----------------|
| <b>1. Minutes</b>   | <b>1 - 4</b>   |
| To approve as a correct record and authorise the Chairman to sign the minutes of the Audit Committee held on 8 April 2021;  |                |
| <b>2. Urgent Business</b>   |                |
| Brought forward at the discretion of the Chairman;  |                |
| <b>3. Division of Agenda</b>  |                |
| To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;   |                |
| <b>4. Declarations of Interest</b>  |                |
| Members are invited to declare any personal or disclosable pecuniary interests they may have, including the nature and extent of such interests, in any items to be considered at this meeting; |                |
| <b>5. Grant Thornton: South Hams District Council Annual Audit Plan</b>   | <b>5 - 26</b>  |
| <b>6. Internal Audit Annual Report 2020/21</b>  | <b>27 - 54</b> |
| <b>7. Bi-Annual Strategic Risk Update</b>   | <b>55 - 60</b> |
| <b>8. Date of Next Meeting</b>  |                |

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
 HELD VIA TEAMS ON THURSDAY, 8 APRIL 2021**

<b>Members in attendance</b>			
* Denotes attendance			
∅ Denotes apology for absence			
*	Cllr L Austen (Vice-Chairman)	*	Cllr J T Pennington
*	Cllr J Brazil	*	Cllr B Spencer
*	Cllr T R Holway (Chairman)	*	Cllr B Taylor
∅	Cllr J McKay		

<b>Members also in attendance:</b>
Cllrs H D Bastone, J D Hawkins, N Hopwood, and J A Pearce

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Section 151 Officer; Director of Place and Enterprise; Monitoring Officer; Head of Strategy and Projects; Senior Specialist – Finance; Senior Specialist – Benefits; Democratic Services Specialist; Internal Audit Manager; and Grant Thornton Representative

**A.26/20 MINUTES**

The minutes of the Audit Committee meeting held on 4 February 2021 were confirmed as a true and correct record.

**A.27/20 DECLARATIONS OF INTEREST**

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

**A.28/20 AUDIT PROGRESS REPORT AND SECTOR UPDATE (YEAR ENDING 31 MARCH 2021)**

The Grant Thornton Representative gave the update, outlining latest Central Government changes to how audits were to be reported, including changes to the value for money reporting. The Benefits subsidy claim had been completed and certified within time limits, with one of the cleanest and shortest audits he had worked on this year. The DWP had not come back with any queries nor comments. The planned audit approach for 2021 was outlined, with the plan to be brought to the next Committee meeting. The impact of the Covid pandemic on audit was noted.

A.29/20 **INFORMING THE AUDIT RISK ASSESSMENT FOR THE 2020/21 FINANCIAL STATEMENTS**

The Grant Thornton Representative updated the Committee. It was noted that there was a legal requirement to ask a number of questions to management, and this document set out those questions and detailed management responses.

Following a question from a Member, the Section 151 Officer confirmed that valuation of the Council's assets was anticipated to be finalised by the end of April, which would then highlight if the Pandemic had impacted on asset values. With regards to the Investments in the CCLA funds, the Section 151 Officer confirmed that as these were long term strategic investments (five years minimum), and therefore there would be a lesser impact as the assets are held for the long term.

A.30/20 **UPDATE ON PROGRESS OF THE 2020/21 INTERNAL AUDIT PLAN**

The Leader introduced the second progress report for 2020/21 which set out the principle activities and findings of the Council's Internal Audit team for 2020/21 up to 19<sup>th</sup> March 2021. The Internal Audit Manager clarified that although the Audit Report listed all audits, with the majority shared across South Hams District and West Devon Borough Councils, some were exclusive to individual Councils, and therefore approval was only required on those items impacting on South Hams District Council.

Following questions from Members, the Internal Audit Manager confirmed that the full report would be presented to the next Committee meeting.

It was then:

**RESOLVED**

That the progress made against the 2020/21 internal audit plan, and any key issues arising, be noted and approved.

A.31/20 **2021/22 INTERNAL AUDIT PLAN**

The Leader presented a report which sought to provide Members the opportunity to review and comment upon the proposed internal audit plan for 2021/22. Due to the impact of the Covid pandemic some audits were not achieved in 2020/21 and would now roll into the 2021/22 Plan.

It was then:

**RECOMMENDED**

That:

- 1) The report be approved, and

- 2) The proposed Internal Audit Plan for 2021/22 at Appendix A of the attendant report be approved.

**A.32/20 SHARED SERVICES METHODOLOGY 2020/21**

The Lead Executive Member for Operational Finance presented the annual report which reviewed costs. He confirmed that the split was reviewed annually and covered the methodology used to arrive at the split. Most calculations remained the same, but the Member highlighted the increase in waste charges to South Hams District Council reflecting the increased resources required to implement the new waste service to the District. There had been a slight decrease in the charges relating to Planning.

The methodology for the apportionment of costs (predominantly staffing costs) between South Hams District Council and West Devon Borough Council was set out in the attached Appendix. The staffing costs of a particular service team were split on a defined basis as set out. The split of costs reflected the level of caseload which was attributable to each Council's individual service.

It was then:

**RESOLVED**

That the methodology of the shared services apportionment of costs between South Hams District Council and West Devon Borough Council for 2020/21, (as attached in Appendix A of the presented agenda report) be noted.

**A.33/20 SUNDRY DEBT**

The Lead Executive Member for Operational Finance presented the report on sundry debt, which looked at housing benefit overpayments. It was confirmed that the recovery procedures were now active again following a temporary short term suspension due to the Covid pandemic.

The Senior Specialist for Benefits then gave a presentation to the Committee on housing benefits overpayment and the methodology used in recovering these debts. The officer was thanked for the thorough explanation.

It was then:

**RESOLVED**

That the position in relation to Sundry Debt be noted.

**A.34/20 BUDGET BOOK**

The Lead Executive Member for Operational Finance presented the annual report which set out the annual budget, split between four directorates (Place and Enterprise; Strategic Finance; Customer Service and Delivery; and Governance and Assurance). The report provided a clear audit trail of all cost pressures and savings that had been agreed as part of the 2021/22 budget process.

The Member outlined an error in the published agenda report (page 109 refers), under customer service budget, item 25 (Senior Leadership Team) and item 26 (Extended Leadership Team). Both of these should have been listed to the current Chief Executive and not his predecessor as had been published.

There were no questions nor comments. A Member remarked that the lack of questions and comments was a direct consequence of the excellent job done by the finance team, the internal audit team, and the external auditors. The Chair asked for the Committee's thanks to be passed to these teams.

It was then:

**RESOLVED**

That the content of the Budget Book for 2021/22 be noted.

(Meeting commenced at 10.00 am and concluded at 11.02 am)

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Chairman

# South Hams District Council audit plan

Year ending 31 March 2021

May 2021  
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# Contents



**Your Grant Thornton Key Audit Partner is:**

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Key matters

## Factors

### Impact of Covid 19 pandemic

The Council has been supporting residents and businesses throughout the Covid-19 pandemic by delivering critical services. The Council administered significant values of Government grant schemes to businesses in 2020, and also distributed the Council Tax Hardship Funding received from Central Government. Accounting for this increased expenditure, and specifically the multitude of Government grants received in year, will require the Council to consider each funding stream separately and we have already engaged with the Council on this area.

The Council also refreshed their financial strategy and medium term financial planning in year and this needs to take into account the significant impact of Covid-19 on the national and local financial environment, as well as on service demands. Leisure providers in particular have felt the challenges created by Covid-19 restrictions and during the year the Council has considered the support that it is able to provide to its leisure provider.

We will review the Council's medium term financial planning, and the impact of Covid-19 on financial planning, as part of our value for money work.

Due to the pressures faced by organisations in the public sector as a result of the pandemic, we are aware that there could be increased incentive and opportunity for organisations to manipulate their financial statements. We have not identified a significant risk of fraud in relation to revenue or expenditure at this stage, however we will review the Council's arrangements around the receipt of Covid-19 funding in forming our assessment of whether a significant fraud risk exists.

## Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.

We will continue to provide you with sector updates via our Audit Committee updates.

We will review progress against the recommendations raised in our 2019/20 Audit Findings Report, and provide the Audit Committee with an update as part of our Audit Findings Report in September 2021.

The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid-19 pandemic, and we expect significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of land and buildings – please refer to page 6.

As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been discussed with your S151 Officer.

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of South Hams District Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of South Hams District Council. We draw your attention to both of these documents.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for :

- forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and
- reporting our commentary on Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified from our planning procedures to date as:

- the revenue cycle includes fraudulent transactions (rebutted);
- management Override of Controls (assumed risk under ISA 540);
- valuation of Property, Plant and Equipment (including Investment Properties); and
- valuation of the net Defined Benefit Pension Liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £905k (PY £967k) for the Council, which equates to 2% of your prior year annual gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £45k (PY £48k).

## Value for Money arrangements

We have identified the following risk of significant weakness from our initial planning work:

- assessing performance and identifying areas for improvement.

Our Value for Money work will provide a commentary on the work we have undertaken to address this risk as well as key elements of governance, financial sustainability and how you improve your economy, efficiency and effectiveness. More information can be found from page 13.

## Audit logistics

Our final visit will take place between August and September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our proposed fee for the audit at the planning stage is £54,271 (PY: £47,271) for the Council, subject to the Council delivering a good set of financial statements and working papers which it has in previous years.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including South Hams District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk for South Hams District Council.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings including Investment Properties	<p>The Council revalues its land and buildings on a rolling five-yearly basis at 31 December each year, with Investment Properties valued annually on 31 March 2021. These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved (£65.7m for land and buildings and £19.2m for investment properties) and the sensitivity of this estimates to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value of land and buildings in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date given a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings and Investment Properties as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• evaluate the competence, capabilities and objectivity of the valuation experts;</li> <li>• discuss with the valuers the basis on which the valuations were carried out;</li> <li>• challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding;</li> <li>• review the Council's valuers' reports and the assumptions that underpin the valuations to ensure that they appear to be reasonable;</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li>• evaluate the assumptions made by management for those assets not revalued during the year or prior to year end and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£48.5 million in the Council's balance sheet at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated, and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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## Introduction

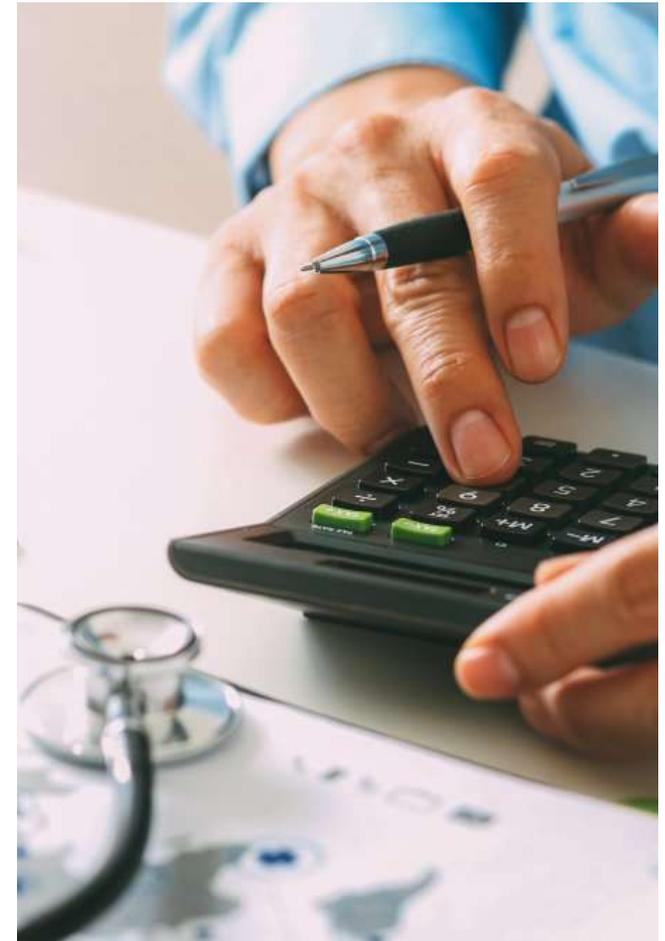
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties;
- Depreciation;
- Year end provisions and accruals;
- Credit loss and impairment allowances (if material);
- Valuation of defined benefit net pension fund liabilities; and
- Fair value estimates.

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. land and building valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

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Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

### Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management via a specific request letter and this was presented to the Audit Committee in April 2021.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and/or
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 13).

# Materiality

## The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £905k (PY £967k) for the Council, which equates to 2% of your prior year gross annual expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20k for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

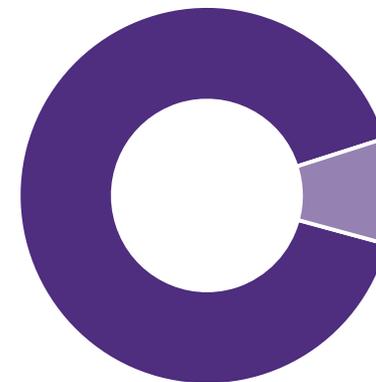
## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £45k (PY £48k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

## Prior year gross operating costs

£45.3m Council  
(PY: £50.4m)



- Prior year gross operating costs
- Materiality

## Materiality

£905k  
Council financial statements materiality  
(PY: £967k)



£45k  
Misstatements reported to the Audit Committee  
(PY: £48k)

# Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness;
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach; and
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out in the boxes to the right:



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



# Value for Money approach

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are also set out below.

## Risks of significant weakness

We have identified the following risk during our initial planning stage, which requires audit consideration and procedures, to address the risk that proper arrangements may not be in place at the body to deliver value for money.



### Assessing performance and identifying areas for improvement

A lack of formal reporting to elected members during 2020/21 may have resulted in poor performance being undetected and corrective action not being implemented in a timely and effective manner.

In order to address this potential risk of significant weakness we will:

- establish the strategic objectives in place for 2020/21 which the Council agreed;
- assess how the Council has assessed its performance against these strategic objectives;
- consider both formal and informal performance reporting undertaken during the year and provided to Members, Directors and the Senior Leadership Team; and
- assess what corrective action was undertaken to address under performance, as required.

We anticipate being able to achieve this by reviewing the performance reports produced during 2020/21, interviewing those officers responsible for producing performance reports and the Directors and Members with responsibility for service performance.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

# Audit logistics



## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing;
- ensure that all appropriate staff are available throughout the planned period of the audit; and
- respond promptly and adequately to audit queries.

# Audit fees

In 2017 PSAA awarded the audit contract for South Hams District Council to Grant Thornton UK LLP with effect from 2018/19. The scale fee for 2020/21 set by PSAA is £33,421. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 13, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £9,000 (27%). This is in line with increases we are proposing at our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been discussed with the Council's Section 151 Officer.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
South Hams District Council Audit	£37,821	£47,271	£54,271

## Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit;
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements; and
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis

Scale fee published by PSAA	£33,421
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£1,850
Enhanced audit procedures for Property, Plant and Equipment	£1,750
Enhanced audit procedures for Pensions	£1,750
Audit fee 2019/20	£38,771
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs (ISA 540 and ISA 240/700)	£6,500
<i>Proposed increase to agreed 2019/20 fee</i>	<i>£15,500</i>
<b>Total proposed audit fees (excluding VAT)</b>	<b>£54,271</b>

Proposed fees are subject to PSAA approval.

# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Other services

The table sets out the other services provided by Grant Thornton that were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Proposed fees £	Threats	Safeguards
Audit related			
Certification of the Council's Housing Benefit subsidy claim	10,000*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the proposed fee for this work is £10,000 in comparison to the total proposed fee for the audit at planning of £54,271 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

\*base cost, assuming no further work is required to be undertaken on errors identified

# Appendix 1: Revised Auditor Standards and application guidance

## FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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Report to: **Audit Committee**  
Date: **1 July 2021**  
Title: **Internal Audit Annual Report 2020/21**  
Portfolio Area: **Cllr J Pearce – Leader of Council**  
Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: **Dominic Measures** Role: **Audit Manager**  
**Robert Hutchins** **Head of Partnership**

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**Recommendations:****It is recommended that:**

- 1. The Audit Committee note that overall and based on work performed during 2020/21, and that of our experience from previous year's audit, the Head of Internal Audit's Opinion is of "Reasonable Assurance" on the adequacy and effectiveness of the Authority's internal control framework.**
- 2. Members note the performance and achievements of the Internal Audit Team during 2020/21.**

## **1. Executive summary**

This report summarises the work undertaken by the Council's Internal Audit team during 2020/21, reviews the performance of the Internal Audit service and provides an audit opinion on the adequacy of internal control. The report is particularly relevant to the preparation of the Authority's Annual Governance Statement which is required under the Accounts and Audit (England) Regulations 2015.

This report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2020/21 to 31st March 2021, by:

- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by Internal Audit against the 2020/21 annual internal audit plan, as approved by this Committee in April 2020, and
- Providing an opinion on the adequacy of the Council's control environment.

## **2. Background**

The Audit Committee, under its Terms of Reference contained in South Hams District Council's Constitution, is required to consider the Head of Internal Audit's annual report, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2020/21 was presented to and approved by Full Council in April 2020. The following report and appendices set out the background to audit service provision; a review of work undertaken in 2020/21 and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

## **3. Outcomes/outputs**

The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to present an annual report providing an opinion that can be used by the organisation to inform its governance statement.

In carrying out our work, Internal Audit assess whether key, and other, controls are operating effectively within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. Final audit reports, will if applicable, include an agreed action plan with responsible officers and target dates to address any control issues or recommendations for efficiencies identified.

Details of Internal Audit's opinion on each audit review carried out in 2020/21 have been provided to relevant members of the Senior Leadership Team to assist them with compilation of their individual annual governance assurance statements.

**Overall and based on work performed during 2020/21, and that of our experience from previous year’s audit, the Head of Internal Audit’s Opinion is of “Reasonable Assurance” on the adequacy and effectiveness of the Authority’s internal control framework.**

*This assurance statement is in line with the definitions below and will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement*

The above statement of opinion is underpinned by our consideration of:



<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

## **Key Findings 2020/21**

As has been reported previously to Audit Committee members, the 2020/21 Audit Plan has been greatly impacted by the COVID-19 pandemic with the Internal Audit resources diverted onto "response" tasks, especially in the first quarter of the year. However, during the summer 2020, as well as completing those audits that remained from the 2019/20 plan, work commenced on new audits, a number of which were finished, with draft and final reports issued. For other audits, fieldwork has been completed with draft reports issued and we await responses from management on the content of those reports and the recommendations made, including a number undertaken in the final quarter.

As stated above we are, overall, able to provide reasonable assurance on the internal control framework. During the year a small number of audit assignments have been completed with final reports issued for which an audit opinion of "Improvements Required" or "Limited Assurance" has been provided. It is pleasing to report that none of our audit reviews resulted in an audit opinion of "Fundamental Weaknesses" or "No Assurance" (please refer to appendix B for definitions of the various audit opinions).

We set out below some of the key issues of concern identified in those audits. It should be noted that agreed management actions plans are in place to address the weaknesses, and we consider that if such actions are completed promptly then the control issue will be addressed. Many of the findings have previously been reported at audit committee meetings during the 2020/21 year.

### **Employment / Recruitment Checks / Leavers Process 2019/20** (previously reported)

The audit review, which was conducted in the weeks leading up to the COVID-19 pandemic lockdown, found the Councils have a structured and controlled approach to the recruitment of staff, with a strategic overview of manpower resource and its deployment. Procedures are in place to ensure that selection of candidates takes place in accordance with legislation and to ensure that the people best suited to the role and the organisation are appointed. Similarly, there is a process in place to manage those staff leaving the organisation.

However, we did note several areas where existing controls would benefit from being strengthened, to increase their effectiveness. The most significant of these related to the obtaining of references for all starters, engagement of agency staff and completion of all leaving documentation by managers, in order that Payroll and ICT are aware of departing staff.

We have therefore provided an audit opinion of "**Improvements Required**".

## **Contract Management 2019/20** (previously reported)

The majority of the review was undertaken during late February and March 2020, just prior to the COVID 19 lockdown and concluded with an audit opinion of **“Improvements Required”**.

We reviewed how officers oversee the management of a variety of contracts including key areas such as IT.

The audit found that beyond procurement, the management of contracts is spread across all disciplines of the Authorities and there was no overarching strategy or policy currently in place which outlines guidance on how the Councils should manage contracts nor a shared standard approach to administration and governance.

As we have identified in other internal audit reports, although the Councils have various lists of known suppliers and a corporate Contract Register, these records are not linked, the register is not regularly updated and they do not include all contracts or details of agreements held by the Councils.

The review found that each service had its own methods of recording contract information, such as contract amendments and performance. There were a variety of officers involved in the process of administering and managing contracts, with a range of contract management skills and experience. However, there is no specific training programme related to contract management or overview.

In general, councils spend a significant amount of resources managing all their contracts and this may not be formally recorded or analysed to provide effective costing for future contract requirements or if the service and contracted provisions might change.

Services need to be more aware of contract risks and include this in the service and corporate Risk Registers. There is a need to ensure that significant contractors have business continuity plans and that the Councils have evaluated exit strategies should the contract terminate before the end of the agreement.

## **Building Maintenance – Works Scheduling 2020/21** (previously reported)

Our audit review, the majority of which was conducted during August 2020, concluded that the controls in place provided **“Limited Assurance”**.

Those officers with responsibility for maintaining the buildings owned and/or leased by the Councils understand the need for a planned maintenance schedule and the benefits this offers.

At the time of the audit, the development of a comprehensive schedule was in progress, almost fully completed for WDBC, and partially completed for SHDC. It had not been possible to finish the work in the timescales expected as staff resource was diverted to respond to requirements resulting from the Covid-19 pandemic.

There was no policy to guide the maintenance of Council property, with reliance being placed on the knowledge, experience and personal approach of the Senior Specialist - Assets (ST) and the Senior Case Manager (PC).

The Senior Case Manager was very aware of the need to undertake planned works in the most efficient manner, including minimising the travel time of the team, as well as maximising best value from hired equipment such as cherry pickers and scaffolding. However, we understand that due to the small size of the Building Maintenance team, it was very difficult to deliver the planned maintenance schedule alongside those reactive works which arise.

The latter are, by their very nature, usually of a higher priority and so take precedence over the planned tasks, which, as a result, fall behind schedule. There were insufficient members of the team skilled in certain trades to allow reactive works and planned works to be undertaken at the same time. The limited staff resource is also exacerbated by the significant amount of travel time required to reach some sites.

As a result, contractors are sometimes used to complete tasks such as painting and decorating, often at cheaper hourly rates than the Council's own internal recharges which are shown on a full cost recovery basis and include wider council costs.

We made a number of recommendations which focussed on considering how best to develop the most effective means of delivering building maintenance on a timely and efficient basis, considering the existing constraints summarised above and how these may be overcome.

Internal Audit are due to carry out a follow up review as part of the 2021/22 Audit Plan to measure progress with improvements and the results of our review will be included in an Audit Plan Progress Report that will be presented to members at a future meeting of the Audit Committee.

### **Insurance – Review of Cover Follow-Up 2020/21** (previously reported)

Following the completion of our follow up work conducted last autumn, our audit opinion remains one of **Limited Assurance** as a significant number of higher priority recommendations remain outstanding, as set out below, largely due to the impact of the Covid-19 pandemic.

The insurance cover held by the Councils appears to be largely in line with that recommended by insurance providers, including the Local Government Mutual who may be considered to be unbiased as not seeking to make a commercial return. There is some degree of review of the level of insurance cover each year, as well as those items and activities insured. There is nothing to suggest that the Councils are under-insured, indeed it is more likely that they are over-insured.

In 2019/20, we made several recommendations, which may contribute to the more effective management of insurance. Those relating to the administrative aspects of the annual renewal process were implemented. However, those relating to the Councils' overall approach to insurance remain outstanding, principally due to other work pressures resulting from the Covid-19 pandemic.

We understand that it is still intended to act on the recommendations made, but that the target dates have had to be reconsidered. Those outstanding include seeking impartial external advice to review the Councils' insurance arrangements, ensuring insurance only covers appropriate activities or services as required, to the level and value required, strengthening the links to the risk management process, consideration of alternative external insurance providers, other than commercial organisations, as well as self-insurance for some risks, and putting an insurance strategy in place.

### **Performance Management (Data Quality) 2020/21** (previously reported)

Following the completion of our audit which took place during September and October 2020, our audit opinion is one of "**Limited Assurance**".

The Councils' Data Quality Assurance Strategy dated from 2013, referred to a previous performance management regime and had not been brought to the attention of staff for some years. The review found the lack of formal corporate training or awareness raising with respect to the importance of data quality, reliance being placed on the arrangements of individual business areas.

Whilst the Councils have a performance management system, this was not used to best effect, only being used to record a limited number of performance measures. We understood that replacement risk and performance management software was being actively considered. This would offer the opportunity to introduce a new culture of centrally recording all performance measures.

Responsibility for the reliability and accuracy of data did not sit with one team, but rather, rested with any officer tasked with producing such information. Decisions as to whether data should be validated in any way, were left to the individual or their manager.

Having reviewed a sample of data published in the draft 2019/20 Annual Reports, we demonstrated that some of this was inaccurate, either due to human error, or not using the most recently available data.

Audit trails evidencing how a performance measure was calculated from raw data, were not always maintained, and in some instances, it was not possible to readily replicate the data.

The data published in the draft Annual Reports was not always obtained directly from the officer responsible for producing it, but was sometimes taken from intermediate sources, such as member reports. In these instances, it appeared that there was sometimes a lack of awareness that the data had in fact been legitimately adjusted prior by other officers to meet particular reporting needs, for example Government Returns which may require the exclusion of some data. This was then presented in the Annual Reports as if it were the original, unadjusted data.

Manual intervention was sometimes necessary in producing the data, but we noted instances where it may be possible to reduce the amount of intervention by better use of system reporting and spreadsheet capabilities.

The 2020/21 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the latest position for each audit.

The reporting of individual high priority recommendations is set out at **Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report presented in April 2021 and confirm that the agreed action has been implemented or what progress has been made. It should be noted that the management responses are as given at the time of the audit and that some actions may have been delayed due to the COVID-19 pandemic.

**Appendix C** provides a summary of work where the planned work is complete but no audit report produced.

### **Non Compliance with Contract or Financial Procedure Rules**

There are no significant issues to bring to the attention of the Committee for 2020/21. Three applications for exemptions to Contract / Financial Procedure Rules have been received, all were accepted.

### **Fraud Prevention and Detection and the National Fraud Initiative**

Counter fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise (National Fraud Initiative – NFI) every two years. The NFI exercise identifies potentially erroneous or fraudulent payments in areas such as housing benefits, awards of council tax single person's discounts and creditor payments. In October 2020, a number of data sets of information were provided to the Cabinet Office and a list of potential matches were received. It is recognised that some service areas have struggled to find the resource to complete the review of the data matches received. Management have been made aware of the situation.

### **Irregularities**

Whilst there were no irregularities to report arising from the day to day operation of the Council, there were eight cases, in respect of COVID-19 related business rate grant applications received by both Councils, referred to Devon Audit Partnership's Counter Fraud Team for investigation. As at the end of April all remained under investigation and therefore unproven with the exception of one which had been closed as "No Further Action".

### **4. Options available and consideration of risk**

No alternative operation has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations 2015.

### **5. Proposed Way Forward**

We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.

## PROVISION OF INTERNAL AUDIT AND PERFORMANCE – 2020/21

There are no national performance indicators in place for internal audit; however the team monitor against local performance indicators as follows:-

Local performance indicator	2020/21	2020/21
	Target	Actual
Percentage of audit plan commenced	95%	77% *
Percentage of audit plan completed	95%	70% *
Actual audit days as a percentage of planned	95%	68% **
Customer satisfaction (percentage of customers stating that service is "good" or "excellent")	90%	100%
Draft reports issued within target days	90%	81%
Average level of sickness	2%	0%***
Outturn within budget	Yes	Yes

\* The impact of the COVID-19 pandemic saw audit resources diverted to assist with the processing of Business Grant applications with the result that 11 out of 47 audits were either deferred or not started as at 31<sup>st</sup> March 2021.

\*\* With the diversion of audit resources during the year onto COVID related activities, in particular, one of the audit team spending the whole year assisting with the processing of business rate grants, the number of days available for audit assignment was reduced.

In addition to the planned work, 23 days have been spent on LEAF (Greater Dartmoor Local Enterprise Action Fund) and LAG (South Devon Coastal Action Group) grant work. An allocation of 30 days had been made in the 2020/21 Audit Plan. Expenditure on these is due to finish at the end of December 2021 and 20 days has been allocated in the 2021/22 audit plan for our work in this area.

\*\*\* It is pleasing to report that there were no instances of sickness within the internal audit team in the period 1st April 2020 to 31st March 2021.

## 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Accounts and Audit Regulations 2015 issued by the Secretary of State require every local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.</p>
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
Supporting Corporate Strategy	Y	This Annual Report and the work of Internal Audit supports all six of the Corporate Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Climate Change – Carbon / Biodiversity Impact	Y	<p>None directly arising from this report. However, the Internal Audit function, managed by Devon Audit Partnership is very mindful of the need to minimise travel in completing the internal audit plan. Where possible, desk-top review of documents, and the use of electronic records, is used to obtain evidence to support the audit process, although it is inevitable that on-site verification may be required at times.</p> <p>The team use an audit management system (Mki) which enables managerial review to take place remotely, thus also saving on the need for travel.</p>
Comprehensive Impact Assessment Implications		

Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

**Supporting Information**

**Appendices:**

There are no separate appendices to this report.

**Background Papers:**

Annual Internal Audit Plan 2020/21 as approved by Full Council on 30 April 2020.

- Status as reported in previous Progress Reports
- ✓ Change to Status since 19<sup>th</sup> March 2021

## Appendix A

### Summary of progress against agreed internal audit plan 2020/21 for **South Hams District Council & West Devon Borough Council**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
<b>Work Carried forward from 2019/20</b>										
Housing Benefit 19/20	20	■	■	■	■		■			Summary presented to Audit Committee in February 2021
Treasury Management 19/20		■	■	■	■	■				Summary presented to Audit Committee in February 2021
Debtors 19/20		■	■	■	■		■			Summary presented to Audit Committee in February 2021
Creditors 19/20		■	■	■	■		■			Summary presented to Audit Committee in February 2021
Payroll 19/20		■	■	■	■		■			Summary presented to Audit Committee in February 2021
Employment / Recruitment Checks / Leavers Process 19/20		■	■	■	■			■		Summary presented to Audit Committee in February 2021
Contract Management 19/20 (All contracts)		■	■	■	■			■		Summary presented to Audit Committee in February 2021
Grounds Maintenance Operations – Follow Up 19/20		■	■	■	■		■			Summary presented to Audit Committee in February 2021

Projects agreed in the Audit Plan	Planned Number	Fieldwork started	Report Issued	Management comments	Final Report	Assurance Opinion	Comments
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■ Status as reported in previous Progress Reports    ✓ Change to Status since 19<sup>th</sup> March 2021

**Appendix A**

	of Days		in draft	received	Issued		Substantial	Reasonable	Limited	No	
<b>2020/21 Plan</b>											
<b>MAIN FINANCIAL SYSTEMS</b>											
Main Accounting System (inc budgetary control)	15	■	■	✓	✓		✓				Final report issued. Extract provided at Appendix B.
Creditor (Payments)	15	■	■	✓	✓			✓			Final report issued. Extract provided at Appendix B.
Debtors (Income Collection)	15										
Payroll	15	■	■	✓	✓			✓			Final report issued. Extract provided at Appendix B.
Business Rates	15	■	✓								Awaiting Management Response to draft report
Council Tax	15	■	✓								Awaiting Management Response to draft report
Housing Benefits	15	✓									Fieldwork progressing
Treasury Management	8	■	■	■	■		■				Summary presented to Audit Committee in February 2021
<b>Main Financial Systems</b>	<b>113</b>										

■ Status as reported in previous Progress Reports    ✓ Change to Status since 19<sup>th</sup> March 2021

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Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
						Substantial	Reasonable	Limited	No	
<b>PLACE &amp; ENTERPRISE</b>										
Salcombe Whitestrand Project	5	■	■	■	■		■			Summary presented to Audit Committee in February 2021
Commercial Property & Rents Follow Up	5	–	–	–	–					Deferred until 2021/22
Salcombe Harbour (S.Hams)	10	–	–	–	–					Deferred until 2021/22
Env Services – Coastal Work (S. Hams)	8	■	■	■	■		■			Summary presented to Audit Committee in February 2021
Dartmouth Lower Ferry (S.Hams)	5	–	–	–	–					Deferred until 2021/22
<b>Place &amp; Enterprise</b>	<b>43</b>									

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
						Substantial	Reasonable	Limited	No	
<b>CUSTOMER SERVICE &amp; DELIVERY</b>										

■ Status as reported in previous Progress Reports    ✓ Change to Status since 19<sup>th</sup> March 2021

**Appendix A**

ICT Audit – Installation and Healthcheck	23	■	■	■	■		■		Summary presented to Audit Committee in April 2021	
ICT Audit – Incident and Problem Management		–	–	–	–				Deferred until 2021/22	
ICT Audit – Access Management		■	■						Awaiting Management Response to draft report	
Locality Officers – Management, roles & scheduling	15	–	–	–	–				Deferred until 2021/22	
Development Control – Planning Enforcement	15	■	■						Awaiting Management Response to draft report	
Building Maintenance – Works Scheduling	10	■	■	■	■			■	Summary presented to Audit Committee in February 2021	
Safeguarding	5	■	■	■	■		■		Summary presented to Audit Committee in February 2021	
HR - Absence Management	5	■	■	■	■		■		Summary presented to Audit Committee in February 2021	
Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Assurance Opinion				Comments
						Substantial	Reasonable	Limited	No	
<b>CUSTOMER SERVICE &amp; DELIVERY Contd.</b>										

■ Status as reported in previous Progress Reports    ✓ Change to Status since 19<sup>th</sup> March 2021

**Appendix A**

Capital Expenditure and Receipts Follow-Up	3	■	■	■	■		■			Summary presented to Audit Committee in February 2021
Cash Collection & Online Payments	5									Deferred until 2021/22
Insurance – Review of Cover Follow-Up	3	■	■	■	■			■		Summary presented to Audit Committee in April 2021
Health & Safety Further Follow-Up	3	■	■	■	■		■			Summary presented to Audit Committee in February 2021
<b>Customer Service &amp; Delivery</b>	<b>87</b>									

■ Status as reported in previous Progress Reports ✓ Change to Status since 19<sup>th</sup> March 2021

**Appendix A**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
						Substantial	Reasonable	Limited	No	
<b>GOVERNANCE &amp; ASSURANCE</b>										
Project Management – Governance and Process (deferred from 19/20)	20	–	–	–	–					Deferred until 2021/22
Project Management – Civica W360 Replacement	15	■								Deferred until 2021/22 once the new system is embedded
Contract Management – Leisure Management & Waste Collection and Street Cleansing Contract	15	–	–	–	–					Deferred until 2021/22. Waste Collection contract management processes were reviewed in Summer 2019 and found to be of High Standard.
Corporate Information Management (Data Protection, Filing System Housekeeping)	12	■								
Change Control – Business Processes (deferred from 19/20)	10	–	–	–	–					Deferred until 2021/22
Climate Change – Governance and Strategy	5	■	■	■	■		■			Summary presented to Audit Committee in February 2021
Risk Management Review (deferred from 19/20)	10	–	–	–	–					Deferred until 2021/22
Performance Management (Data quality)	5	■	■	■	■			■		Summary presented to Audit Committee in February 2021
<b>Governance &amp; Assurance</b>	<b>92</b>									

■ Status as reported in previous Progress Reports    ✓ Change to Status since 19<sup>th</sup> March 2021

**Appendix A**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments	
						Substantial	Reasonable	Limited	No		
<b>OTHER ESSENTIAL ITEMS</b>											
Audit Management including:- - Audit planning, - Monitoring & reporting, - Audit Committee	28	■	-	-	-	-	-	-	-	-	Includes attendance at Audit Committee – Internal Audit Annual Report presented to Audit Committee on 25th June 2020,
Annual Governance Statement	2	-	-	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to July & October 2020 Audit Committees under separate cover
Exemptions from Financial Regulations	5	■									
Grants - Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG)	30	■	-	-	-	-	-	-	-	-	23 days spent on claims between 1 <sup>st</sup> April 2020 & 31 <sup>st</sup> March 2021
National Fraud Initiative (NFI)	5	■									
Contingency & Advice	5	■	-	-	-	-	-	-	-	-	
<b>OTHER ESSENTIAL ITEMS</b>	<b>95</b>										
<b>TOTAL DAYS</b>	<b>430</b>										

## Definitions of Audit Assurance Opinion Levels

At the Audit Committee last February, Members were informed of changes to the assurance opinions used both for individual audit assignments and the overall/annual opinion.

For audits completed as part of the 2019/20 plan the following opinions were in use.

<b>High Standard</b>	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
<b>Good Standard</b>	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
<b>Improvements Required</b>	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
<b>Fundamental Weaknesses</b>	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

- Status as reported in previous Progress Reports    ✓ Change to Status since 19<sup>th</sup> March 2021

**Audit Assignment Assurance Opinion Levels – New from May 2020**

Following their analysis, CIPFA recommended the following standard assurance opinions for individual assignments which Devon Audit Partnership have adopted for 2020/21 assignments going forward for all its partners and clients :

<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

**Overall / Annual Assurance Opinion Levels – New from May 2020**

It would seem logical to closely mirror the individual assignment opinions when providing our annual, overall assurance opinion. Some small changes are required to make this work and it was agreed that the following four ratings be used for our overall audit opinion provided during 2020/21.

<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.	<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved.
<b>Reasonable Assurance</b>	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.	<b>No Assurance</b>	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

## Planned Audit 2020/21 – Final Reports

The following tables provide a summary of the audit opinion and main issues raised in the reports issued to managers. In all cases (unless stated) an action plan has been agreed to address these issues.

As at 31 May 2021, 15 final reports have been issued in respect of 2020/21 work and 8 in respect of work completed from 2019/20. The conclusions from final reports issued since the last Audit Committee in April 2021, are summarised below.

Subject	Audit Findings	Management Response
<b>2020/21 Audit Plan</b>		
Main Accounting System (inc Budgetary Control)	<p><b>Audit Opinion - Substantial Assurance</b></p> <p>We were able to confirm that, in general, the setting and subsequent administration of budgets is well managed, with controls in place and operating. It was recommended that:</p> <ol style="list-style-type: none"> <li>1. Consideration be given to amending Financial Procedure Rules to create a joint set of virement authorisation requirements for SHDC and WDBC. These could take the most pragmatic aspects of each existing set of rules, possibly being based on a combination of both value and responsible officer/committee, tempered by the practice of retrospectively reporting all virements** to members as part of the following year's budget setting process.</li> <li>2. All relevant officers should be made aware of what the authorisation requirements are for virements and consideration be given for requiring evidence</li> </ol>	<ol style="list-style-type: none"> <li>1. A more pragmatic and unified approach to authorising virements is to be introduced. In future, members will be informed of any virements of £100k or more by including them in the quarterly budget monitoring reports taken to Executive at SHDC and the Hub at WDBC. Those virements under £100k will be approved by the S151 Officer or the Deputy S151 Officer.</li> </ol> <p>An automated quarterly report listing all virements will be set up, to be sent to the Head of Finance Practice (PH), providing a prompt for the review of all virements made during the period, the approval of those under £100k, as well as confirming that all virements of £100k or more have been reported to members.</p> <p>The Head of Legal Practice (DF) is currently in the process of revising the Councils' Constitutions and he will be asked to update the Financial Procedures Rules to reflect the new authorisation requirements, and to include these in the report to be taken to members seeking approval for the revisions.</p>

Subject	Audit Findings	Management Response
	<p>of authorisation to be attached to the virement itself within the general ledger.</p> <p>** A virement is where a budget is moved from one budget holder (and cost centre) to another, to better reflect where budget responsibility should be held. Virements always net to zero.</p>	<p>2. Agreed. The Finance team will be informed of what changes are to be made to the requirements for authorising virements, as well as the fact that all virements will be reviewed quarterly.</p>
Payroll	<p><b>Audit Opinion - Reasonable Assurance</b></p> <p>The current arrangements for delivering the payroll function are operating as effectively as possible, with suitable key controls in the majority of areas.</p> <p>Due to the limitations of the current software, it is not possible to gain further significant efficiencies, for example by removing the need to manually perform a number of key calculations, such as for starters, leavers and maternity pay. Whilst the associated issues continue to cause inefficiencies, they do not cause errors in the payroll.</p> <p>The Head of HR Practice did commence an evaluation of alternative payroll systems, but the work has had to be delayed, most recently to release staff resource to assist with the Councils' response to the Covid-19 pandemic. It is now expected that a new system will not be procured and installed any earlier than April 2022.</p> <p>We have made a small number of relatively minor recommendations to strengthen existing payroll controls, including:</p>	

Subject	Audit Findings	Management Response
	<ol style="list-style-type: none"> <li>1. Ensuring that the access rights to the payroll systems are periodically reviewed to ensure they remain appropriate, with users who no longer require access having it disabled promptly.</li> <li>2. Ensuring all starters are advised of the fact that it is their responsibility to update their own emergency contact details via the Payroll self-serve portal.</li> <li>3. Consider updating guidance, to require officers to submit evidence of managerial approval for any purchase of office equipment during the COVID-19 pandemic as part of the expenses claim, particularly when in excess of the £60 limit has been claimed.</li> <li>4. The possibility of running a periodic duplicate value payments report should be investigated as part of the implementation of a new payroll system. This would identify instances where officers may have claimed against the same item more than once, whether in error or intentionally.</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. The Specialist – HR/Payroll (DB) submitted a work request to ICT asking that the individuals highlighted, plus two others, have their access removed and this has been actioned. Implementation is reliant on the ICT Practice.</li> <li>2. Agreed. New employees will be reminded of the need to check and, if necessary, update their emergency contact details at several points in the ‘new starter’ process: <ul style="list-style-type: none"> <li>• The new starter form which must be completed by employees;</li> <li>• The starters checklist which reminds managers of what information they must give to new employees;</li> <li>• The ‘Welcome’ email sent to new starters will also explain how to check and amend emergency details;</li> <li>• Periodic reminders will continue to be included in ‘The Flash’ periodically.</li> </ul> <p>The forms completed by new employees are held on their files, should emergency contact details be required and not be available on TeamSpirit.</p> </li> <li>3. Agreed. It is intended that claims under £60 are taken on self-declaration, in the same way as routine travel and expenses claims are. <p>The Specialist – HR/Payroll (DB) will be asked to put a process in place for claims over £60, requiring employees to obtain email authorisation from the relevant Business Manager, and to submit this with their claim.</p> </li> </ol>

Subject	Audit Findings	Management Response
		<p>The number of claims received in future is expected to be far fewer, as most people should have the equipment they need by now and IT equipment and chairs can be provided via the Service Desk.</p> <p>4. Agreed. The facility to highlight potential duplicate claims will be a requirement of whichever new payroll system is selected.</p>
Creditors	<p><b>Audit Opinion – Reasonable Assurance</b></p> <p>We were able to confirm that, in general, controls are in place to manage the payment of creditors, with the majority of payments being made accurately and on a timely basis. Action has been taken, or is in progress, to address many of the recommendations we made in 2019/20, although a number do remain outstanding, some of which are outside the control of the Central Invoicing Team. We have repeated these, and other issues identified during our 2020/21 review, which would contribute to both the strengthening and the enforcing of controls over payments being made, the most significant of which are:</p> <ol style="list-style-type: none"> <li>1. Ensuring that officers in business areas raise a purchase order at the time of commissioning goods or services, rather than after the invoice is received;</li> <li>2. Following procedures when updating creditors details, evidencing that bank details have been independently confirmed and a second officer checking accurate input;</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. A new purchase order request process was implemented on 13 April 2021 and only requests received through the Liberty system will be processed. This has been communicated to all staff via the weekly Flash and an email.</li> <li>2. Agreed. The Senior Case Manager – Support Services Finance (MB) already issues a weekly reminder to the team and also carries out monthly quality checks to ensure that procedures are being followed.</li> </ol> <p>Procedures already require that a second officer checks that bank details have been input correctly and mention of this is included in the weekly email reminders issued by the Senior Case Manager – Support Services Finance (MB).</p>

Subject	Audit Findings	Management Response
	<p>3. Ensuring that business areas authorisation of the payment of invoices, where they cannot GRN (i.e. note goods as received) these themselves, is evidenced;</p> <p>4. Correctly following procedures when raising a Faster Payment, to avoid duplicate payments also being made via the creditors system; and</p> <p>5. Improving controls over the issue of purchase cards.</p>	<p>3. Agreed. All emails relating to any GRN approval are held in a centralised invoices inbox. This is because, depending on the format of the documents provided, it is not always possible to attach them to the individual invoice record within the creditors system.</p> <p>4. Agreed. Existing procedures require any creditors system entry to be cancelled when raising a Faster Payment.</p> <p>It will be discussed with the Head of Finance Practice (PH) to identify if there is any means of making the process more robust. Ideally, the creditors entry would be automatically flagged up, but as Faster Payments are not raised through the creditors system, it may be that an extra prompt has to be included in the procedures, for either the officer raising the Faster Payment or the officer authorising it, to check that any corresponding entries on the creditors system have been cancelled.</p> <p>5. Agreed. A copy of the Cardholder Responsibilities and Guidelines document has been sent to all cardholders and they have been asked to sign and return it. The returned documents will be held by Case Management – Support Services Finance.</p> <p>The Digital Mail Room (DMR) have been instructed that they are only to hold 'unclaimed' purchase cards for eight weeks. They must then contact both the provider and the Case Management - Support Services Finance team to advise that if neither contact the DMR, then the card will be destroyed.</p>

## Planned Audit 2020/21 – Work Complete (No Audit Report)

Subject	Comments
<p><b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b></p>	<p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2019/20 financial year.</p> <p>The S151 Officer presented the 2019/20 AGS to the Audit Committee on 30 July &amp; 15 October 2020.</p>
<p><b>Exemptions to Financial Procedure Rules</b></p>	<p>Three applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.</p>
<p><b>Fraud / Irregularity</b></p>	<p>There have been no irregularities to report with the exception of eight cases relating to applications for COVID-19 business rate grants which were referred to Devon Audit Partnership's Counter Fraud Team for investigation.</p>

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Report to: **Audit Committee**  
Date: **1 July 2021**  
Title: **Bi-Annual Strategic Risk update**  
Portfolio Area: **Leader – Councillor Judy Pearce**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y / N**

Date next steps can be taken:

Author: **Neil Hawke** Role: **Head of Strategy**  
Contact: [Neil.Hawke@swdevon.gov.uk](mailto:Neil.Hawke@swdevon.gov.uk)

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## **Recommendations:**

That the Audit Committee REVIEW the Strategic Risk Register (Appendix 1) and make recommendations to Council on any further action the Committee concludes should be considered.

### **1. Executive summary**

- 1.1 In accordance with the Risk and Opportunity Management Strategy adopted by Council in 2018, this report forms the required bi-annual update to Audit Committee Members.
- 1.2 The Strategy sets out the roles and responsibilities for various Council Committees and officer groups. The Audit Committee is to "Provide independent assurance to the Council on the effectiveness of the Council's risk and opportunity management, internal control and overall assurance framework".
- 1.3 This report aims to provide the Committee with the information required in order to provide that assurance to the Council. Included is a copy of the current strategic risk register (Appendix A)

## **2. Background**

- 2.1 The adopted Risk and Opportunity Management Strategy requires the Senior Leadership Team (SLT) to:
  - a. Identify, evaluate, prioritise and control risks and opportunities
  - b. Ensure the Council implements and manages risk effectively through the delivery of the Risk and Opportunity Management Strategy and consider risks affecting delivery of services
  - c. Ensure risk and opportunity management is considered on at least a quarterly basis
- 2.2 To ensure oversight of risk management, the Audit Committee consider the strategic risk and opportunity register twice a year

## **3. Outcomes/outputs**

- 3.1 While the Strategic Risk register is considered by Audit Committee twice a year, it is by its very nature a document which is constantly being updated as new information changes existing risk profiles or introduces new risks.
- 3.2 The Strategic Risk Register does not capture all risks to Council and its services, these are captured within operational risk registers where Heads of Service are responsible for managing the risks.

## **4. Options available and consideration of risk**

- 4.1 The risk register is a regularly updated document that enables the Senior Leadership Team to actively manage risks.
- 4.2 Members should note the current risks and progress made and if deemed necessary, may make recommendations on amendments to the register including any additions.
- 4.3 Members may also wish to refer any 'red' risks to Overview and Scrutiny Committee for further detailed investigation.

## **5. Proposed Way Forward**

- 5.1 It is suggested that the Committee's attention is focused on those risks with the highest score i.e. the risks with a score of 16 and over.
- 5.2 SLT will continue to monitor the existing Strategic Risks, seek to identify any new risks and provide a further update to Audit Committee in six months' time.
- 5.3 Work will also be undertaken to refine the Strategic Risk Register in line with the new Corporate Strategy and associated deliverables.

## 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Audit Committee has a role in keeping under review and recommending to Council improvements in relation to effective risk management. There are no direct legal implications arising from the report although a strategic focus on risk and opportunity management is good practice. Any specific legal implications are to be considered in individual risk assessments.
Financial implications to include reference to value for money	Y	There are no direct financial implications arising from the report, although effective corporate risk and opportunity management can help protect the Council from budget variances.
Risk	Y	Members should note that while risk and opportunity is assessed collectively within SLT, the judgements in relation to the scores are inevitably subjective and Member challenge of the officer conclusions is therefore welcomed.
Supporting Corporate Strategy	Y	
Climate Change - Carbon / Biodiversity Impact	Y	There are no direct carbon/biodiversity impacts arising from the recommendations as this will be factored into individual risk assessments where appropriate.
<b>Comprehensive Impact Assessment Implications</b>		
Equality and Diversity	N	Factored into individual risk assessments where appropriate. Equalities Impact Review of the Risk Management Policy in place.
Safeguarding	N	Factored into individual risk assessments where appropriate.
Community Safety, Crime and Disorder	N	Factored into individual risk assessments where appropriate.
Health, Safety and Wellbeing	N	Factored into individual risk assessments where appropriate.

Other implications		
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<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed/sign off	<b>Yes/No</b>
SLT Rep briefed/sign off	<b>Yes/No</b>
Relevant Heads of Practice sign off (draft)	<b>Yes/No</b>
Data protection issues considered	<b>Yes/No</b>
Accessibility checked	<b>Yes/No</b>

Strategic Risk Register

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#	Risk Title	Description	What is (or are the) Uncertainties	Likelihood	Financial	Service Quality	Reputation	Legal/Regulatory	Health & Safety	Morale/Staffing	July 2020 Risk	Jan 2021 Risk	Current Risk Score	Change (January 21 to Now)	Mitigating Actions / Internal Controls	Current Note (June 2021)
SH7	Delivery of waste & recycling service changes	The risk is that the contractor, FCC, lacks the capacity or ability to rectify the issues being experienced by residents at this stage resulting in further delays, increased reputational damage and overall significant frustration for our residents.	The key issue at this stage is the capacity and ability of FCC to rectify the problems being experienced at this stage. These relate to the capacity of the transfer station at Ivybridge, the round design, the fleet design and the work force management.	5	3	5	5	3	3	4	15	15	25	X	Continuous dialogue between the Council's contractor (FCC) and the Council. Action plan being monitored and South Hams staff supporting FCC on the ground. Improvement plan being considered and subject to continuous monitoring.	Implementation of waste changes has been impacted by a range of issues resulting in an unacceptable level of missed collections per week and jeopardised the roll out of the new recycling service (Devon Aligned Service) .  Major issues with the new service are being experienced at the time of the update. The Council is working with FCC (the Council's contractor) to resolve ongoing issues via an Improvement Plan.  An extraordinary meeting of the Overview and Scrutiny Committee was held on 10th June 2021 to receive an update from the Portfolio Holder for Waste and Recycling on the progress in resolving the issues.  On 17th June 2021, an Extraordinary meeting of Council was held to discuss performance and receive an Improvement Plan from FCC.  In the short term, 26,000 residents will continue to have their recycling sorted at the kerbside into the new vehicles. 11,000 residents will have their recycling collected in a different vehicle and it will be sorted at a local sorting facility. 8,000 residents will remain on the clear and blue sack system for the time being.  All residents are being asked to continue to separate their recycling following the instructions, regardless of which vehicle arrives on their collection day. The Executive Director Service Delivery has embedded a number of Council Officers within FCC to support them with rectifying the issues. The expectation is that FCC will collect recycling on the right day for all residents by the middle of July.
SH2	Adherence to Medium Term Financial Strategy	Failure to sustain a robust on-going medium term financial strategy in SHDC with adequate reserves to meet unforeseen circumstances, due to cost pressures and reduced income targets, council decisions, changes in Government policy with regard to business rates and affordable housing; Potential impact on delivering the MTFs, particularly if national/regional businesses successfully appeal against business rate valuations or litigation proceedings / legal challenges / planning appeals, etc.	Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. a reduction in sales, fees and charges income or business rate appeals. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn, the effects of the pandemic and other factors such as the bankruptcy/liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area. The latest forecast for the Devon Business Rates Pooling gain is over £7 million for 2020-21, with the SHDC share of the pooling gain being predicted to be in the region of £225,000, which is being transferred into the Business Rates Retention Reserve (Executive 11th March 2021).	4	4	4	4	4	2	3	25	16	16	—	Robust horizon scanning to monitor changes in Government policy. SLT awareness of the risks, cautious approach to budgeting and robust systems of financial control. The Council is not intending to rely heavily on sources of income which may not be sustainable.  SLT actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring where appropriate the learning from this is incorporated into strategic plans. SLT engaged in the development of the MTFs. An Amended Budget for 2020-21 was approved by Council in September 2020, in response to the Covid19 pandemic. The latest Medium Term Financial Strategy was approved by the Executive in October 2020.	The Council is in the process of closing its Accounts for 2020/21 and these will be published by 1st August 2021. In the Council's latest budget report for 2020/21, a small surplus of £96,000 is predicted, against the Council's total net budget of just over £9million. The Council has to be entirely independent to fund all of its services on a net budget of just over £9million, as the District Council no longer receives any main Government Grant (Revenue Support Grant). The Council has had a reduction in core Government funding of £4million per year since 2010. The Council will prepare its Medium Term Financial Strategy for the period covering 2022/23 to 2026/27 and this will be presented to the Executive at its September 2021 meeting, alongside the Budget Monitoring report for the first few months of 2021/22. The Council will continue to respond to national funding consultations and lobby alongside other Devon Councils and national organisations such as the District Councils' Network for a multi-year financial settlement, to aid long term strategic financial planning. The Fair Funding Review and the re-setting of the Business Rates baseline could be deferred from 2022/23. The Council is also awaiting further Government announcements on the New Homes Bonus funding. The Budget Gap over the next two years is likely to be in excess of £0.8million and work is already underway to address this. Much will also depend on the next Government financial settlement for 2022/23 and confirmation on funding items like Negative Revenue Support Grant, which has been assumed in the modelling to start impacting in 2022/23.
SH6	Inadequate Staffing Resource	Failure to have sufficient staffing arrangements. Loss of staff morale, and inadequate resources for training and re-skilling in an ongoing period of change. Failure to engage staff resulting in uncertainty regarding changes in working practices and job security. Particular risk in relation to future terms and conditions. Cost and time of retraining/up-skilling staff. Unrealistic expectations in relation to staffing capacity.	Performance being reviewed to understand whether resourcing levels are correct; difficult to assess accurately as organisation continues to experience change effects and processes being embedded / roll-out of new technology and working practices	4	3	3	3	2	2	4	16	16	16	—	Customer Satisfaction Survey has been initiated and staff away days undertaken to update staff and embed solutions to tackle issues raised. Mechanism in place for ELT to appoint within budget where appropriate without recourse to SLT. Apprenticeship scheme developed by HR.	The ongoing response to Covid-19 continues to impact staffing resource as we continue to:- - Process business grants - Prepare for new Restart Grants - Implement Covid-19 Secure elections - Offer support and advice to businesses on safety measures - Plan for the removal of restrictions - Plan and Implement recovery measures including development of a new Corporate Strategy  Flexibility around government funding has meant that we have been able to extend the temporary Covid marshalls to support business advice on safety measures, supporting our existing EH team resource.
SH1	Political Commitment for Change	On-going political commitment to support changes needed for ongoing financial sustainability & community resilience	Considerable external change with devolution and Governmental funding cuts; leading to uncertainty within the South West and beyond.	4	4	3	4	4	1	4	16	16	16	—	Keep Members informed and updated on central government policy relating to local government services. Provide Members with training and ongoing development. Ensure Members are fully briefed on options within the policy and budgetary framework in order to inform decisions. Ensure policy changes are brought forward in a timely way for decision making, that due process is followed and that there is appropriate consultation, information and scrutiny. Provide regular L&D briefings, group meetings and Member briefings and drop-ins.	Council have supported the development of a new Corporate Strategy which will set out a clear direction and priorities for the future. A full Member briefing was held on 17 June 2021 to set out the emerging priorities. Work now continues with Executive Members to refine the priorities with a draft strategy being considered by Executive and Council in July 2021. There will be a period of consultation on the emerging priorities commencing in July 2021 and the final strategy and detailed delivery plans will be considered by Executive and Council in September 2021.

SH8	Health and Wellbeing Service Provision	Covid-19 has a significant impact on Leisure provision given the nature of activities and hygiene requirements. The risk is that as leisure centres make adjustments to reduce the risk of Covid-19 to both staff and customers, the capacity of the centres is significantly reduced while many overheads and operating costs remain the same.	There are many uncertainties:- - When leisure centres may reopen - When they do open, what will the customer appetite be - How long any measures that reduce capacity will have to remain in place	4	4	2	2	2	4	2		16	16	16	—	- Engage with Leisure Services provider to understand issues and support where possible - Continue to monitor local and national position (given that all leisure providers will be in the same position)	All Centres are open and running activities in line with Covid-19 restrictions and as before the popular activities being Swim School, casual swimming, group exercise classes, then going to the gym. Average monthly usage for all 6 Centres is running at c35,000 whereas prior to the pandemic this would be between 52-55,000. In the first month of returning, 634 centres memberships were taken but overall numbers are at 56% at c3,800 compared to c6,700 in Feb '20. Swim School is performing very well with numbers currently at 71% compared to Feb'20. hybridge is back to its normal level. Group exercise classes occupancy is at c75% and is still affected due to space and number restrictions. GP Referrals are back but numbers are still small and other activities, schools and clubs are beginning to return.  Fusion highlight that customers are upbeat and usage is going in the right direction. This will hopefully improve further when Step 4 of the lockdown eases. However in a recent APSE report the effects of the pandemic on leisure are likely to last for another 18months with social distancing and public anxiety likely to suppress centre usage for a period of time. A report to Members on Leisure is on the Executive Forward Plan for October 2021.
SH8	Covid-19 (Coronavirus) impact on services	Covid-19 (Coronavirus) will impact on the ability for the Council to deliver its services leading to a drop in operational performance and customer satisfaction. There will be additional financial implications	The situation evolves on a daily basis and there are many	4	3	4	3	3	4	4		25	20	16	✓	Incident Planning is well underway but this has already meant a significant impact on service delivery with most of the Senior and Extended Leadership now focusing on ensuring our response plans are robust. A separate risk register is monitoring the impacts of COVID-19	We continue to monitor the government roadmap in order to identify any possible impacts on council services. As restrictions are lifted, we have been able to 'stand down' our community response although there still remains a focus on provision of government grants to businesses which is causing pressure in this area of the Council.  The summer period may well see additional pressures to our localities team given the expected increase in 'staycations'. To support this activity, the Council have extended our Covid-19 compliance officers until the end of the year.
SH4	Business Continuity	Officers fail to develop robust processes to ensure business continuity in the event of a significant event occurring, e.g. Failure to ensure the continuous availability of critical IT systems	Following the event, how quickly will certain systems and processes be able to be back on-line	3	3	5	4	2	3	3		15	15	15	—	Having two HQ locations is main mitigating factor - however an outage of power/ICT at either location would lead to a serious disruption of service. Agile working further reduces reliance on two office buildings. Locality workers can be dispatched more easily to ensure customer engagement can be maintained during any incident. Business Continuity plans have been updated - priority areas - ICT Networking - Payroll & Creditors Payments; other plans need to be made more robust	Covid-19 Incident Management meetings continue to be held three times a week to monitor and respond to impacts. This has been an effective way of co-ordinating the Councils response.  The Extended Leadership Team are currently refining specific risk assessments for the unlocking of Covid-19 restrictions and this will form the basis of future Incident Management Team discussions.  A further lessons learnt session with officers has been held to review our response to the latest lockdown and restrictions with the results of that helping to shape future incident responses.
SH5	Emergency Response	There is high public expectation in relation to supporting communities during coastal erosion/storm damage/flooding events, as well as engagement in longer term recovery, in particular assumptions about capital investment to restore assets. The risk relates to how best to support dispersed communities, e.g. with filling, transporting and laying sandbags as well as providing workforce on site, given limited resources and expectations during an event.	Following the event, the expectation that coastal defences and asset repairs will be urgently undertaken despite competing claims on capital resources	3	3	4	5	3	4	4		12	15	15	—	Continued management and officer focus on this area to ensure risk is minimised as much as possible; continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each others responsibilities and capacity	The Council continues to engage with the Local Resilience Forum and is keeping its emergency response plans up to date
SH9	WD Financial position affecting SH shared arrangements	South Hams operate a joint shared services (shared workforce) arrangement with West Devon Borough Council. Both Councils have different financial pressures and strategies to meet predicted financial gaps. If West Devon were unable to meet its financial obligations, this could have a significant negative impact on South Hams.	Uncertainties around the longer term financial impact of Covid19 on Councils' finances nationally. There is also a large amount of uncertainty around elements of Local Government finance such as the future of New Homes Bonus, negative Revenue Support Grant and Rural Services Delivery Grant.	2	3	3	5	3	1	3		10	10	10	—	The Officer Senior Leadership Team is the same team across both Councils, therefore giving an early warning system. Close monitoring by WDBC of all income/expenditure and horizon scanning through the MTFS process. WDBC has the same timescale for its Recovery and Renewal Plan as South Hams and Amended Budget for 2020/21 was approved at Council in September. A Cross Party Member Working Group (Financial Stability Review Group) has a defined Terms of Reference to look at the Medium Term Financial Strategy and to assess options for securing financial stability for the longer term. External audit reports for West Devon also give an independent view on WDBC's financial position and are publicly available on the agenda for the Audit Committee meetings.	On 22nd September 2020, West Devon Borough Council approved a revised (Amended) Budget for 2020/21 with measures totalling £501k being agreed by Members. The Deputy S151 Officer continues to submit monthly DELTA returns to Central Government that details the current additional expenditure and loss of income streams suffered by both Councils on a monthly basis (due to Covid19), with predictions for future months. In West Devon Borough Council's latest budget monitoring report for 2020/21, a small surplus of £23,000 is predicted, against WDBC's total net budget of just over £7million. The Council will prepare its Medium Term Financial Strategy for the period covering 2022/23 to 2026/27 and this will be presented to the Hub Committee at its September 2021 meeting, alongside the revenue budget monitoring report for the first few months of 2021/22. West Devon BC's budget gap over the next two years is likely to be in excess of £0.5million and work is already underway to address this. West Devon BC are predicted to have Earmarked Reserves of £1.9 million and Unearmarked Reserves of £1.1 million at 31.3.2021, as referenced in Appendix A to the Month 10 Revenue Budget Monitoring (Hub Committee report 16th March 2021).
SH10	Delivery of Reopening High Street Safety Scheme	The risk is that the Council does not comply with the ERDF grant funding conditions related to the Reopening the High Street Safety Fund	- Clarity of eligible expenditure that delivery partners wish to incur - Ability to demonstrate sufficient evidence to support claim									10	6	6	—	- Clear guidance related to the scheme to be provided to all Town Councils - Approval of items for payment to be made through SHDC - Where possible, expenditure will be incurred directly by SHDC to reduce the requirements for Delivery Partner Agreements and likelihood that evidence is not obtained	Following the extension of the programme, plans have been developed and submitted to MHCLG for approval. We currently await their agreement to proposed activities. To mitigate the risk that funding may not be able to be reclaimed, activities will not commence until formally agreed.
SH11	Delivery of Strategic Capital Projects	The risk is that the Council is not able to deliver on one or more of its strategic capital projects.	- The strategic projects involve a number of third parties and will be subject to external market prices for the deliverability of schemes. - Some schemes are also subject to the planning process.	3	4	2	5	3	2	2				15		- Regular project team meetings are held to monitor the progress of individual capital schemes. - Each capital project has its own governance arrangements including a detailed risk register which is reported to Members when reports on specific projects are considered. This includes a process for escalation of risks to the Programme Board and, where required, the Strategic Risk Register.	Schemes continue to be monitored in accordance with the governance arrangements set out in the mitigations column of this register.  Updates on individual schemes will be provided in accordance with the Executive Forward Plan.